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TO RUEHC/SECSTATE WASHDC 8561
INFO RUEHAC/AMEMBASSY ASUNCION 5715
RUEHBO/AMEMBASSY BOGOTA 2987
RUEHBR/AMEMBASSY BRASILIA 6865
RUEHBU/AMEMBASSY BUENOS AIRES 4096
RUEHCV/AMEMBASSY CARACAS 1415
RUEHPE/AMEMBASSY LIMA 1348
RUEHME/AMEMBASSY MEXICO 1677
RUEHNM/AMEMBASSY MONTEVIDEO 3664
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SIPDIS

SENSITIVE
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STATE FOR WHA/AND LPETRONI
COMMERCE FOR JANGLIN
ENERGY FOR SLADISLAW
TREASURY FOR SGOOCH

E.O. 12958: N/A
TAGS: [ETRD](#) [EINV](#) [ECON](#) [PGOV](#) [BL](#)
SUBJECT: GOB ESTABLISHES ELECTRICITY "DIGNITY TARIFF"

REF: LA PAZ 600

11. (U) Summary: The GOB established an electricity "dignity tariff" March 21, introducing a 25 percent reduction in rates for consumers who use fewer than 70 kilowatt hours of electricity per month. The 16 companies comprising Bolivia's national electricity network agreed to accept the rates and to bear an estimated \$4.5 million in annual costs, but only under heavy government pressure. Company representatives told Econoffs March 22 that the Morales administration's decree differed slightly from a draft negotiated with electricity companies and worried that GOB officials would continue to tinker with electricity prices. The tariff is further evidence of Bolivia's deteriorating investment climate, and many observers believe it is part of the government's push to buy popular support in advance of the Constituent Assembly. End summary.

12. (U) In a March 21 supreme decree, the GOB established a "dignity tariff" for electricity, introducing a 25 percent reduction in rates for low-consumption, low-income households. The new rates will apply to households connected to Bolivia's national electricity network and consuming fewer than 70 kilowatt hours per month (kwh/mo) and to households connected to isolated, mostly rural, systems and using fewer than 30 kwh/mo. According to press reports and private sector estimates, 40 to 50 percent of all consumers will benefit from the change.

13. (SBU) The 16 generation, transmission, and distribution firms comprising Bolivia's national electricity network agreed to accept the new rates and to bear an estimated \$4.5 million in annual costs, but only under heavy government pressure. In earlier conversations with Econoffs, company executives said GOB officials threatened to make rate changes with or without private sector support, suggesting firms could best serve their own interests by supporting the GOB's initiative (reftel). Companies subsequently entered into a "strategic alliance" with the GOB and agreed to accept rate

cuts in exchange for GOB commitments to respect existing concessions and licenses, honor established pricing arrangements, and solve problems with the electricity industry's price stabilization fund.

¶4. (SBU) According to company executives, the fund was designed to prevent consumer price fluctuations by taking deposits when state-established electricity tariffs exceeded generation, transmission, and distribution costs and by covering deficits when tariffs fell below costs. At first, the fund worked well, but as a result of rising costs and Presidents Rodriguez and Morales' unwillingness to raise electricity rates in the run-up to and immediate aftermath of the December 2005 presidential elections, companies have begun losing money. They anticipate that these losses will continue until at least October 2006, as the March 21 decree prohibits consumer rate increases until that date.

¶5. (SBU) Representatives of Elfec, a subsidiary of U.S.-based PPL Corporation and Bolivia's second-largest electricity distribution company, told Econoffs March 22 that the decree establishing the dignity tariff differed slightly from a draft negotiated with electricity companies. The GOB extended the deadline for solving problems with the price stabilization fund until October, one month longer than expected, and expressed interest in making an off-cycle revision of tariffs, typically established every four years by the superintendent of electricity. Elfec executives pointed out that the GOB had never established procedures for such revisions and worried that officials would further lower rates to unacceptable levels.

¶6. (SBU) While the exact mechanism for dividing the new tariff's costs among generation, transmission, and distribution firms has yet to be determined, Elfec representatives expect the GOB's initiative to cost the company more than \$300,000 per year. Another firm, Empresa Electrica Corani, a subsidiary of U.S.-based Duke Energy International, expects to lose as much as \$500,000 per year. The companies only reluctantly accepted the rate reduction, considering the GOB's proposal the "least bad" option and recognizing they had little choice but to give in to government pressure. Company executives worry that GOB officials will continue to tinker with electricity prices, noting that Minister of Public Works Salvador Ric privately told them the dignity tariff "was only the beginning" of changes affecting the electricity industry.

¶7. (SBU) Comment: Company fears may be well founded. The scheduled election of Constituent Assembly delegates is less than four months away, and the government has strong incentives to boost popular support for its candidates. Many observers see the electricity "dignity tariff" as part of the Morales administration's populist push to buy such support. End comment.

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